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October 21, 2008

AGENDA ITEM 3a

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** Update on Purchase of Medicare Parts A and B
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Information Only
- IV. BACKGROUND:**

At the September 16, 2008, Health Benefits Committee (HBC) meeting, staff presented information on CalPERS retirees aged 65 and older currently enrolled in basic health plans, and a cost/benefit analysis to determine whether it is cost-effective or cost-prohibitive to move these retirees to Medicare health plans.

This agenda item addresses the Committee's questions regarding further actuarial analysis of the retiree population to determine present value of savings, strategies for managing Medicare enrollment employed by other government agencies, and regulations governing public agency enrollment in PEMHCA.

Attachment 1 contains the cost/benefit analysis presented at the September 16, 2008, HBC meeting.

V. ANALYSIS:

Actuarial Analysis: Present Value of Savings

For two age groups, CalPERS actuarial staff calculated the discounted net savings over five years resulting from moving retirees aged 65 or older from a basic plan to a Medicare plan. Staff projected costs and savings forward five years and discounted back to get a net present value. The results are as follows:

	65-74	75+	Total
<i>Discounted net savings over five years (in millions)</i>	\$5.2	\$50	\$55.2

Actuarial staff will provide a detailed discussion at the October 21, 2008 HBC meeting.

Strategies for Managing Medicare Enrollment

CalPERS staff contacted the Centers for Medicare and Medicaid Services (CMS) and agencies in other states to determine how other public agencies manage Medicare enrollment. Staff also contacted the California State Teachers' Retirement System (CalSTRS) regarding how it addresses Medicare enrollment.

CMS

CMS reports that nationwide, only seven public agencies have agreements with CMS to pay Medicare premiums on behalf of retirees. CalSTRS, County of Imperial (CA), Chicago Public School Teachers Pension and Retirement Fund, and the City of Dallas have agreements to pay Part A and B premiums, any penalties and any Part B income-related monthly adjustment amounts (IRMAA). The Los Angeles Department of Water and Power, Colorado Public Employees Retirement System, and State Teachers retirement System of Ohio have agreements with CMS to pay the Part B base premium, any penalties and any IRMAA.

In addition to the above Medicare premium payers, CMS reports that 33 public agencies have agreements to pay only the Medicare Part B late enrollment penalty. The Part B penalty payers are almost all city agencies in Massachusetts, with CalPERS being the sole exception.

Public Agencies

Out-of-state public agencies responding to CalPERS staff inquiries include: Pennsylvania Public School Employees' Retirement System (PSERS), Kentucky Retirement Systems (KRS), State Teachers Retirement System of Ohio (STRS Ohio), and the Employees Retirement System of Texas (ERS). These public agencies do not pay Medicare premiums or penalties on behalf of their retirees.

Some of these agencies do, however, offer selected assistance. For example, STRS Ohio urges Medicare enrollment for members three months prior to retirees reaching age 65. If a Medicare-eligible individual does not enroll in Medicare, plan administrators process member claims as though they had enrolled in Medicare and the individual is responsible for the portion not covered by Medicare. In addition, STRS Ohio:

- Charges a higher monthly premium until the retiree notifies STRS Ohio of his or her Medicare status
- Pays Part A claims for retirees who do not qualify for premium-free Medicare Part A on the condition that they use participating Medicare providers for Part B services

- Pays the Medicare Part B claims for about 300 retirees who only qualify for Medicare Part A and requires individuals to seek services from a PPO network provider to receive the higher level of benefits for Medicare Part B services
- Provides a partial monthly reimbursement of Medicare Part B premiums to its retired teachers based upon years of service. The minimum monthly reimbursement is \$29.90. The retired teacher does not need to be enrolled in one of STRS Ohio's health plans to received this monthly reimbursement.

CalPERS staff is continuing to receive responses from out-of-state agencies and checking to see if the agencies have put any CMS agreements into practice. CalPERS staff can provide more information as it becomes available.

CalSTRS

Beginning July 1, 2001, CalSTRS began paying Medicare Part A premiums for those without premium-free Medicare Part A coverage to relieve the financial burden associated with health care coverage for many retired educators. The CalSTRS Medicare Premium Payment (MPP) Program, established by legislation (SB 1435 – Johnston (Chapter 1032, Statutes of 2000)), is funded through a State Treasury trust fund called the Teachers' Health Benefits Fund, and will be in effect until 2012, at which time the CalSTRS Board will decide whether to extend the program.

As noted earlier, CalSTRS is one of the agencies with a CMS third-party billing agreement to pay Part A and B premiums, any late enrollment penalties and any Part B IRMAA on behalf of its retirees. In practice, however, CalSTRS pays only Part A premiums under its MPP Program. Retirees pay Part A penalties, Part B premiums and penalties, and IRMAAs. Retirees can also elect to have their Part B premiums deducted from their monthly CalSTRS allowance. To be eligible for CalSTRS payment of Part A premiums, enrollees must be:

- A retired or disabled CalSTRS member (not a spouse or beneficiary)
- Age 65 or older
- Ineligible for premium-free Medicare Part A
- Enrolled in Medicare Part A and Medicare Part B

The member's retirement date also affects the eligibility for payment of Part A premiums.

Regulations Governing Public Agency Enrollment into PEMHCA

Pursuant to PEMHCA Section 22922, the CalPERS Board of Administration may adopt or amend regulations that limit the prospective enrollment of a public agency into PEMHCA. Such regulations could require, for example, that the

agency's current and future annuitants be enrolled in, or otherwise eligible for, Medicare Part A without cost and Part B.

Next Steps

If the committee decides to pursue transferring Medicare-age retirees in basic plans to Medicare plans, the next steps include:

1. Determining which groups to transfer
2. Investigating state and public agency funding mechanisms for Part A and Part B payments to Medicare (premiums and penalties)
3. Identification of necessary legislative, regulatory, or policy changes required
4. Considering implementation for the 2010 rate year

VI. STRATEGIC PLAN:

This item supports the CalPERS Strategic Plan, Goal X: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

VII. RESULTS/COSTS:

This is an information item only.

Sandra Felderstein, Chief
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Attachment